When portfolio reporting becomes a differentiator in the execution-only investment market.

Insight 1

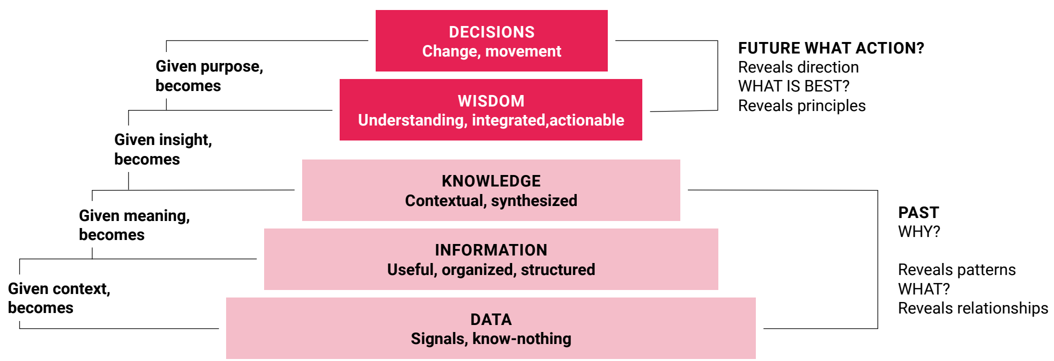
InvestSuite

In his 1934 play, *The Rock*, T.S. Eliot wrote, ‘Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?’

If he had added, ‘where is the information we have lost in data?’, he would have perfectly described what is now known as the DIKW chain. This model is often used in information science and asserts that information is defined in terms of data, knowledge in terms of information and wisdom in terms of knowledge[1]. Its sequence reflects the reasoning of people trying to make sense of the world by first translating observed data (did something happen?) into descriptive information (what happened?), then interpreting it into knowledge (how did this happen?) and ultimately turning it into a kind of wisdom that is useful for future decision making (why do these things happen all the time?).

When talking to retail investors about the appeal of do-it-yourself investing, ‘making sense of the world’ turned out to be a major factor. Some refer to it as a hobby, saying ‘people who love football immediately turn to the sports pages of their newspaper... I instantly turn to the economy section’. They just love to connect dots, complete puzzles and search for patterns, whether they are economic, political or otherwise, which are hidden in the daily stream of information. Others call it hard work and claim, ‘if you want results from your investments, you need to attend to them every day’.

Whatever the take on self-investing, be it perceived as a hobby or hard work, these statements echo Peter Drucker’s theory that in order for an effort to be productive, people must apply knowledge to the task at hand[2]. By providing retail investors with knowledge, therein lies an opportunity for financial institutions to enhance their value proposition, therefore gifting them the possibility to develop a competitive advantage that does not involve lower prices or access to more markets and products. This lays down a challenge to rethink portfolio reporting and to transform what is usually considered a transactional obligation into a distinctive service feature.



WHAT IS THE PROBLEM?

To find out how self-investors keep track of their performance and what their thoughts are on the reporting tools available to them today, we went out to meet with them, travelling to their homes and offices all over Europe for an extensive interview on the topic. Knowing that money is usually a tricky subject to discuss in a formal research context (it is generally in the same category as sex or drug addiction), it was incredible how easily self-investors 'spilled the beans' about their respective situations. Whether they were university students, men in their fifties or senior citizens with decades of experience on the market, they were quick to show us their Yahoo! Finance app, Google Sheet or a ring binder with an A-Z of their investments. Based on these interviews, we observed four recurring themes that transcend age, gender or nationality:

Self-investors trade here and find inspiration there

They usually turn to banks or brokerage platforms for the execution of their trades and go elsewhere for inspiration or insight. In our interviews, their default attitude often appeared to be sceptical towards banking reports, referring to them as sales tools in disguise. As Robin, an Estonian app developer in Copenhagen, put it,

'They have this service that sends you monthly reports. But who reads all that? It's actually just them advertising their stuff... plus the general news that you can also read in the newspapers. Like "Brexit is coming", you know...'

Self-investors think reports bring nothing new

They often do not see the point of reports and claim 'the facts are what they are'. When all the supporting data is readily available on Google, Yahoo, Investing and Bloomberg, an additional report just becomes less necessary. Or, as Mariusz, an entrepreneur in Warsaw, stated,

'My broker has a report that's actually nice [...] but I know how my stock is performing. So, for me it is OK, they make a nice chart, but why would I go to the site to look at that chart? What's the point?'

Self-investors prefer finding things out themselves

They do not want to be told. Instead, they want to discover patterns in information, draw their own conclusions and create a unique view on things. As Erik, a director of corporate strategy at a multinational in Leuven, highlights,

'It's kind of very much spread out, there is no single source. I want to get a picture of the world. When an analyst says 'buy' I will never buy.'

Self-investors care most about their own portfolios

Their motivation is mostly egocentric and they do not like reports that wander off topic, with the topic clearly being their money, their portfolio, their choices and their perspectives. As Nikolas, a Finnish CFO living in Copenhagen, expands:

'I can't really relate to it. It's like, here is how the markets have been doing, and here are how our funds have been doing, and ... then I'm like, yes, but I need to understand what that is doing for me.'

These first-hand accounts already shed a light on possible areas for improvement. Reports should not feel like sales material or datasheets containing all of the obvious numbers. They also should not be boring, nor should they communicate a one-size-fits-all message. So, what should an engaging report look like?

5 WAYS TO ENGAGE

By discussing mock-up designs of alternative reporting concepts with the self-investors, we learned that in order to boost engagement, five rules of thumb should be applied.

1 Personal in every way

By far the most demanded characteristic of any portfolio report is personalisation. The more personal the content, the more valuable it is deemed. The more familiar the tone-of-voice, the more it is liked. The more original the design, the more it is appreciated. Investors, it seems, do not want reports about a market, fund or bank strategy. They want reports about themselves and how they relate to these stratagems:

'I want to know if it was made specifically for me, or if it was sent to 100,000 people. You must approach me with my results, because I can't read about "my results" in the paper.'

Nevertheless, personalisation should not just be some superficial varnish on top of an otherwise cookie-cutter type report. It must be present in every aspect of the user experience. A highly personal introduction could be utilised, as could content selection that is based on its relevance to the individual, and which shows absolute figures instead of percentages. Adjusting the vocabulary to clients' varying levels of knowledge and experience is also a possibility. So too is allowing them to choose the format, as some people like to read, while others are into podcasts. The creative potential for personalisation is boundless.

2 Small mental effort. Big insights

What was remarkable was how often interviewees stressed how valuable their time really is. It seems that *awarding* a financial institution five minutes of their time to look at a report is an extremely kind gesture on their part. A privilege not to be squandered. Long reports, long paragraphs and even long sentences were instantly and irrefutably dismissed:

'You can always make texts shorter. Like here, it says "several specialised analysts...". That could be "several analysts" because analysts are per definition specialised. There is a point where it becomes too much for people and they stop reading.'

In light of this, financial institutions should look at online editorial design examples for inspiration. This is especially relevant with regards to the way they get straight to the point and aim for 'gut' understanding, without assuming people will invest any time or effort to understand. The discipline, also, with which they weigh their words, produce snackable content items and allow people to 'read less' or 'read more' are particularly noteworthy. The way they draw readers into a narrative thread with a main feature and sub-sections that uncover the story-within-the story; all the while, quotes, body copy, graphs, images and multiple content formats are purposefully balanced to get the message across.

3 Transparency for greater trust

Maybe it is because the truth nowadays consists not only of facts, but also of 'alternative facts' and mere opinions, but the self-investors in our research were all reluctant to simply outright trust any information. They were highly sensitive to inconsistencies or incomplete information, and they often asked to be able to verify the data, sources or calculations that were used in the reports we showed:

'I once found this platform and they had EVERYTHING: all kinds of graphs, multiples, comparisons to industry benchmarks, [...] very complete, and it was free too. And that made me doubt the quality and I stopped using it. I couldn't verify where it all was coming from.'

Offering transparency is one sure way to increase trust, and a little effort can go a long way here. Explaining how things work in a common language is one such example of these endeavours. As is showing how results are calculated so people are able to think along the same lines and better grasp how things happened, or revealing sources and dates in an effort to ensure clients believe what they see. To be trusted, the report should be the opposite of a 'black box'.

4 Appeal to both sides of the brain

Even though the self-investors we met were more rational minded than most people, they were not insensitive to creativity or beautiful design. On the contrary, it was remarkable how enthusiastically they spoke on the subject, musing about things like the 'human touch', 'tone-of-voice' and even 'warmth'. As many researchers of behavioural economics have pointed out, humans are not soulless 'econs'. Even when looking at a portfolio report, their first, pre-reflective response is an affective one, attraction or repulsion, and a decision is made in a matter of seconds:

'This font looks like The Economist. It resembles "professional reading", so for the average person, it will immediately stress him too much.'

Effectively communicating with the person at the receiving end of a report requires equal attention to be paid to 'what' is being reported and 'how' it is presented. We must bear in mind that most people do not particularly love looking at charts and percentages, are not impressed by fancy jargon and do not enjoy ploughing through layer upon layer of information. By investing in design and user experience, financial institutions can demonstrate they actually care about their clients.

5 Something to look forward to

No matter how well designed a portfolio report is, there will come a time when complacency kicks in. We noticed this during our interviews when we asked investors if they had recently received a report from their bank or broker. They typically took a deep breath and then started typing words in a 'search mail' box, or they went to their office to unearth some document from way-back-when. In short, the reports were there, but they had not registered with the interviewees:

'Part of such a report, more synthetic, could be delivered to me once a week. This section [...] every six months. More complex market analysis should be delivered to me once a quarter.'

To avoid instances of bore-out, financial institutions should plan for 'fresh consistency'. Put simply, this means having something new to say every time, within a predefined framework. A different content item, a different graph, a different benchmark, a special edition, ... or maybe just a different design for the same content. Versioning reports could have the same effect. A monthly, quarterly, or yearly report can be created as markedly different user experiences. Just think of Spotify's yearly animated 'Wrapped' reports. They are so popular that they are even used as the subject of advertising campaigns.

NEVER-ENDING STORY

At Investsuite, we applied these five rules to create a white-labelled reporting tool called Storyteller. It uses artificial intelligence (AI) to automatically generate personalised portfolio reports and presents key insights in natural language, all alongside easy-to-understand graphs and media-snippets. As its name suggests, Storyteller approaches reporting from a different angle. When developing it, we asked ourselves the following question: 'how engaging would the people at Pixar make the never-ending story of an investor?' This resulted in a new framing and a design transformation of the content that typically goes into reports. What is the premise (time horizon/goals/ESG) and the context in which the story unfolds (strategy/risk profile)? What has been the client's story so far (their history)? Furthermore, what favourable and unfavourable events took place (analysis)? Who are the heroes and the villains (attribution), and what are their backstories (related news items)? Additionally, what could happen next (advice/dividend calendar)?

Follow-up research with private banking clients confirmed that the five rules also apply in an advisory context. Here is where the story must adapt to various findings, including the need for longer timeframes, strategic planning and a tone of voice that these clients expect. The object also changes from 'the portfolio you built' to 'the portfolio we built on your behalf'.

In both use-cases, Storyteller adds value to the relationship with the client by sparking insights, rather than just by reporting the facts. It helps to transfer some knowledge to the investor, which could otherwise be lost amidst the stream of information.

ABOUT THE RESEARCH

This paper is based on the findings from a series of in-depth interviews on portfolio reporting with self-investors in Belgium, Denmark and Poland. The field research took place in their homes and offices in January/February, 2020. Over 32 hours of recordings were processed into 477 verbatim statements, and they were tagged and sorted for analysis.

1 Jennifer Rowley, (2007). "The wisdom hierarchy: representations of the DIKW hierarchy". Journal of Information and Communication Science. 33 (2): 163–180.
2 The full Peter Drucker quote on knowledge work is, 'We know now that the source of wealth is something specifically human: knowledge. If we apply knowledge to tasks we already know how to do, we call it "productivity". If we apply knowledge to tasks that are new and different we call it "innovation". Only knowledge allows us to achieve these two goals.'

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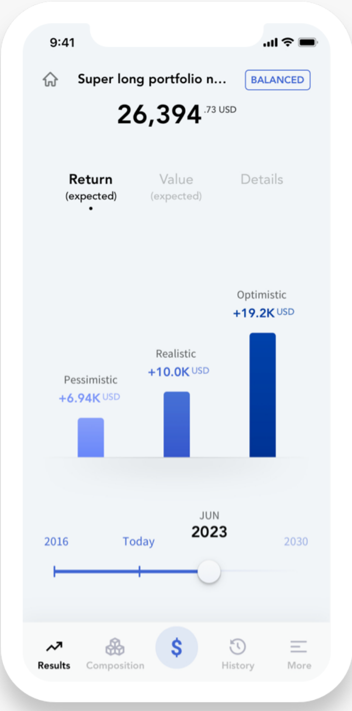

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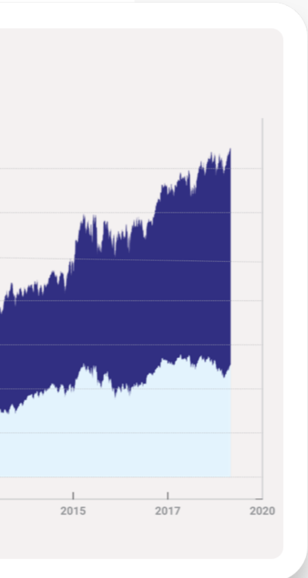

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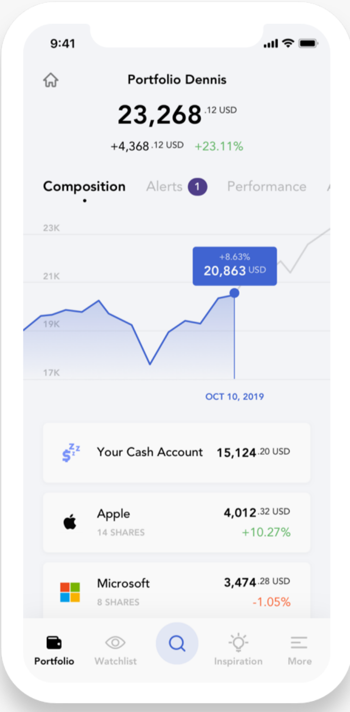
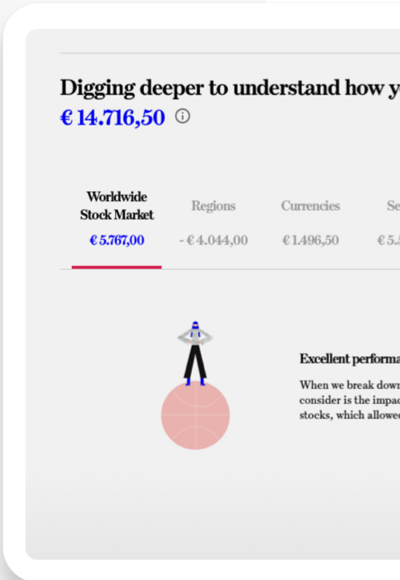


Self Investor
A best-in-class powerful white-label execution-only platform for easy investing



StoryTeller
A worldwide first new way to tell the story on portfolio performance

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