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Investing Reimagined:

Charting the Rise of Innovative Investment Products and Platforms

White Paper

An RPG Company

Abstract

The investment landscape is undergoing significant transformation due to changing demographics and advances in technology. Gen-Zs and millennials are exploring non-traditional investment options even if such investments carry huge risks. New-age technologies have disrupted the traditional modes of investing by making the investment process less cumbersome and more accessible through new investment avenues. Technological advances have democratized the investment arena, enabling retail investors to invest in asset classes exclusively reserved for the elite.
The innovative platforms offer investment products that diversify investment portfolios, optimize risk, and enhance liquidity, apart from yielding the much sought-after alpha.

This white paper explores some of these innovative investment products and platforms.

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Understanding the investment landscape of the next decade

Investment patterns across the globe are changing as investors seek higher returns and take greater risks. Investors are considering investment options well beyond traditional asset classes. A 2020 report[1] estimates that alternative assets could grow at a compounded annual growth rate (CAGR) of 7.8 percent to $19.8 trillion by 2025. There is an increase in demand for investment products that are custom-made, liquid, have a low correlation with traditional assets, carry low fees, and have no minimum investment constraints. Disruptive technologies are paving the way for creating such tailormade investment products and platforms which are accessible to everyone. Earlier, such investments were an exclusivity of the elite class. But state-of-the-art technologies are democratizing the capital markets by permitting retail investors to access and invest in non-traditional assets at affordable prices.

Forces accelerating the shift towards alternate investments

The interest rates are at an all-time low, forcing investors to minimize bank deposits and bond investments. In addition, a series of market crashes have induced investors to look for assets with a low correlation to equity markets. Investors are now more mindful of the asset's liquidity, lock-in period, and load requirement, apart from alpha, making them more interested in innovative investment products. Also, the lack of well-established regulatory and tax structures for these investment options makes them more lucrative.

Millennials and Gen-Z investors, characterized by their high risk-return expectations, prefer ease of use, instant investment options, and low transaction cost. The new investment avenues feature products and customer interfaces designed to stoke these expectations.

Deciphering alternative investment products and innovative investment platforms

Crypto assets

The advent of crypto assets has taken the world by storm, opening up a whole new world of investment possibilities. Several byproducts of cryptocurrencies have been floated in the markets recently. The launch of crypto-based exchange-traded funds (ETFs) and indices such as ProShares Bitcoin Strategy ETF, Valkyrie Bitcoin Strategy ETF, and Crypto 10 index are well suited for investors who want to gain exposure to cryptocurrencies.

Crypto derivatives operate like financial derivatives, enabling traders to speculate and hedge their underlying crypto investments. However, crypto derivatives are unregulated in most geographies. Platforms such as Bitmex, ByBit, OKEx, and Deribit offer cryptocurrency derivatives trading.

Protos and Crescent are a few platforms that provide crypto asset management for pooled investment options without investors having to worry about the technical know-how of managing crypto wallets, token ownership, and transfers.

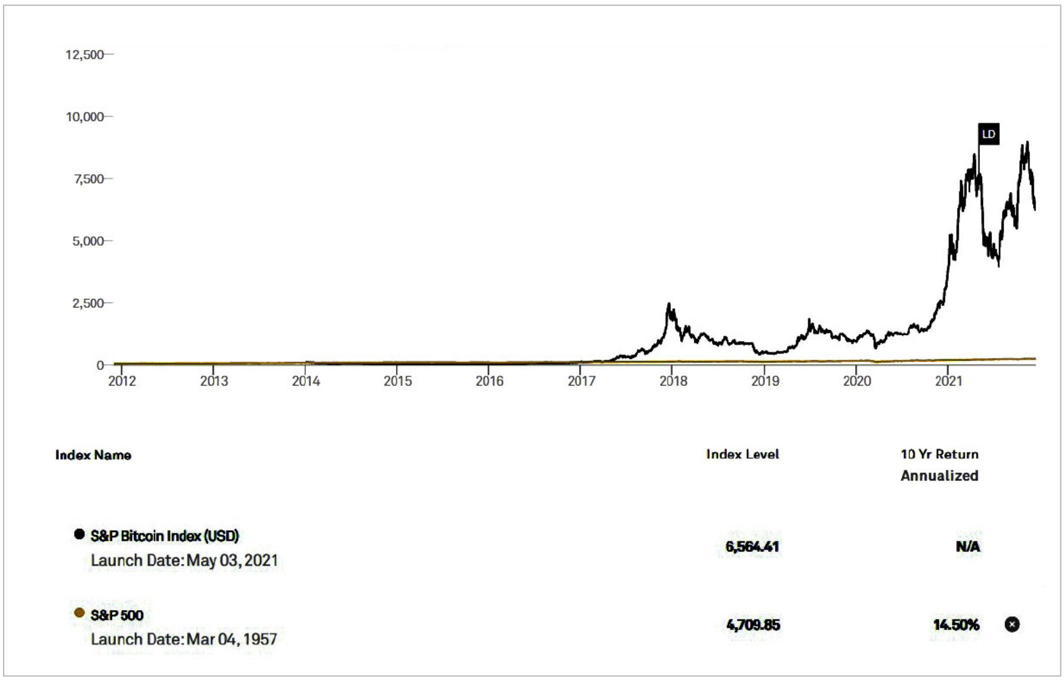


Figure 1: Bitcoin index

Arts and antiques

The art market has largely been uncorrelated with other financial markets, making it an essential tool for diversification. Art-based funds allow investors to invest in a basket of artworks. Indices such as ArtPrice100 provides a benchmark for investors to track. The current art market is valued at $1.7 trillion[2]. From 2000 to 2018, the 'blue-chip' artworks have outperformed the stock markets by 180 percent.

New-age platforms such as Masterworks are democratizing the arts market. Physical art is now securitized, converted into share-based ownerships, and offered for sale. Fractionalizing high-value art assets enhances its liquidity and lowers the investors' barrier to entry. Retail investors can bank on the art selection and management expertise of connoisseurs administering these assets.

Digital artworks are converted into non-fungible tokens (NFTs) for trading on the blockchain network. Recently, many NFTs have been sold on distributed ledger technology platforms for millions of dollars.

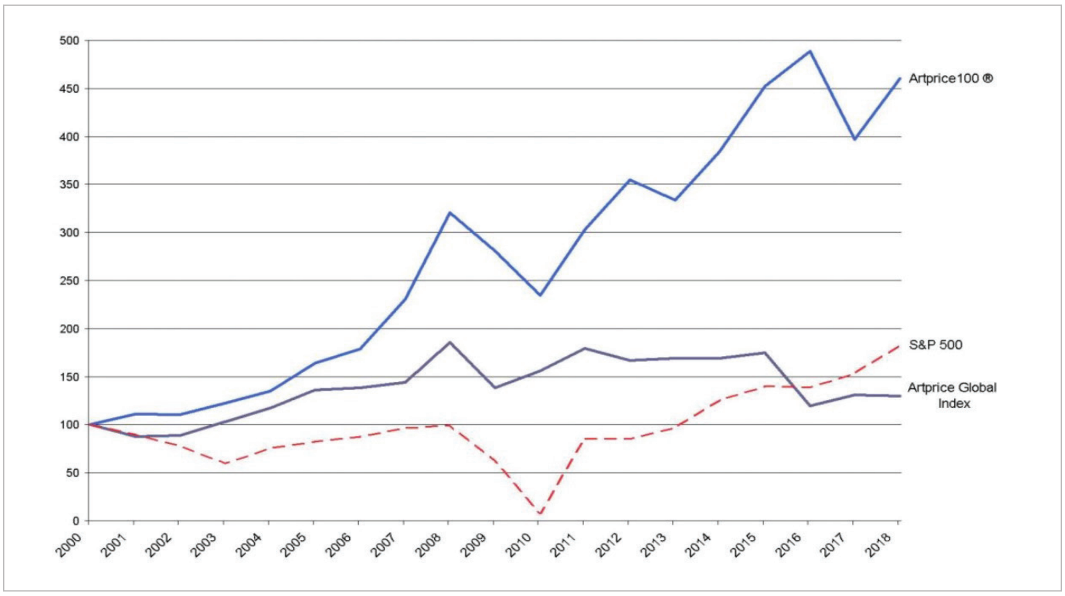


Figure 3: Artprice index performance

Crowdfunding – A proxy for private equity

Private equity has been another preserve of the ultra-rich. While being riskier than publicly-listed stocks, the potential returns are much higher. In the past decade, investments in private equity have provided a CAGR of 20 percent and the assets under management have grown by $4 trillion[3].

Crowdfunding is making private equity accessible to all classes of investors. Wealth creation platforms such as SeedInvest, Fundersclub, and Infinity Circle offer retail investors seed funding and venture capital investment opportunities. As of 2021, crowdfunding platforms have raised $34 billion[4] globally. Popular startups such as Nothing (earphone manufacturer) and Glowforge (high-tech 3D laser printer) raised capital through such crowdfunding platforms.

Even traditional private equity has been witnessing changes that favor retail investors. Private equity firms such as Blackstone, Carlyle, Apollo, and Goldman Sachs' Petershill Partners have gone public, opening new entry points for retail investors to indirectly gain exposure to private equity.

Figure 4: Private equity returns

Crowdlending - Peer-to-peer lending

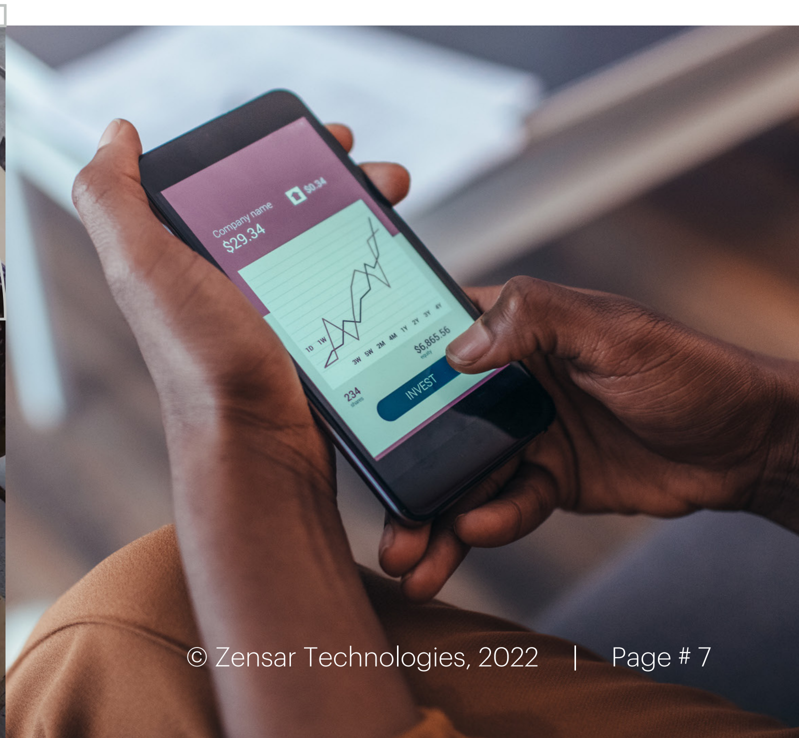
Like crowdfunding, crowdlending is another avenue for investors to earn returns higher than traditional investments. Crowdlending platforms, also known as peer-to-peer (P2P) lending platforms, assess loan applications on a case-to-case basis and assign varying interest rates depending on the borrower's creditworthiness. The high risk inherent in such investments due to the broader exposure to credit risk is mitigated to an extent by distributing an investor's funds across multiple borrowers. The global market size for P2P lending was $67.93 billion[5] in 2019. It is expected to rise to $558.91 billion by 2027, a CAGR of 29.7 percent. P2P lending platforms such as Prosper and Lending Club that match potential borrowers with lenders without any intermediaries are gaining popularity among retail investors. However, this investment area is currently unregulated.

Equity investing – Old wine in a new bottle

Investing in equities has always been lucrative for investors. The conventional method of equity investing is being redefined with ground-breaking platforms that permit fractional investing and the use of third-party investment models.

Fractional shares can be purchased for as little as $5 to get a slice of a $2,000 worth stock of firms such as Amazon Inc. or Alphabet Inc. This makes the stock more affordable for the retail investor and enhances the stock's liquidity. Large brokerage firms such as Charles Schwab and Fidelity are now offering the option of fractional investing to their clients.

Emerging investment platforms are providing a model marketplace that allows investors and advisors to choose from a plethora of third-party investment models, while also giving the option of customizing them, as and when required. The model marketplaces provide features such as investment automation, trade execution and periodic rebalancing. Oranj, Interactive Brokers, and Morning Star are some firms offering this service.



Beyond conventional ETFs

The need for a variety in ETFs has inspired institutions to create offshoots of ETFs using derivatives, themes, ESG (Environmental, Social and Governance) scores, and others for diversification needs and better returns.

Leveraged ETFs, inverse ETFs, and leveraged inverse ETFs, unlike conventional ETFs, are engineered using derivative instruments. The leveraged ETFs can achieve returns in multiples of the underlying index's returns (typically 2x or 3x). Inverse ETFs are similar to holding short positions, which helps speculators make money, and hedgers limit their downside risk in a bear market. Leveraged inverse ETF has features of both leveraged and inverse ETF, hence, magnifying returns in a falling market.

Thematic ETFs are another category in the new investment landscape. It is structured around specific themes such as ESG, electric vehicles, artificial intelligence, precious metals, and even high-character CEOs. Most of these ETFs are characterized by their passive management styles. Another ETF - "Smart Beta," has a blend of active and passive investment strategies. Smart Beta ETF seeks to outperform an index like active asset management but has a cost structure similar to passive asset management.

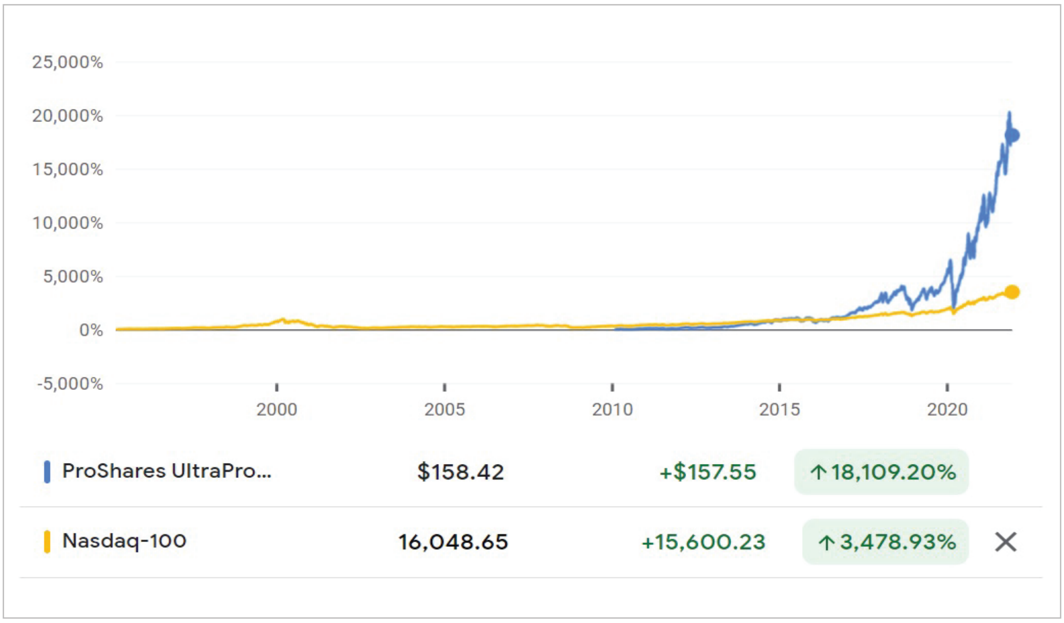


Figure 5: ProShares UltraPro QQQ is a 3x leveraged inverse ETF that tracks the Nasdaq 100

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Navigating the risks

Many emerging investment products are unregulated, have low transparency, and have minimal standardization. Some of these products are highly volatile due to the wide dispersion of prices and market swings. Together, these factors make investments in such products speculative. Investment products such as crypto assets and artworks are relatively illiquid, increasing the risk in unregulated markets.

Investors need to be cautious before being swept by seemingly-promising trends. Financial instruments such as mortgage-backed securities played a significant role in triggering the 2008 financial crisis due to their opaque and under-regulated nature. Investors, institutions, and regulatory bodies must all adopt a measure of caution.

The road ahead

Exciting times are ahead for investment firms, advisors, and investors. Technology is rapidly disrupting the investment landscape by opening up avenues that were earlier earmarked for the elite, and creating new ones with higher liquidity, returns, and risk. The industry is witnessing an open mindset from investors in exploring these new avenues. However, some of these avenues are still in nascent stages, and hence, early investors may enjoy windfall gains or suffer substantial losses.

Investment managers must adopt new technologies or partner with fintech firms to broaden their offerings to cater to investors with high risk-return preferences. The responsibilities of investment managers are getting redefined to understand, evaluate, and manage such innovative investments and help investors navigate and sustain through the market's highs and lows.

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