WealthTech Insights with Michel van Tol: Benefits of Investing in Individual Stocks

Continuing on with our WealthTech Insights series, we talked to Michel van Tol, chief investment officer (CIO) at Huddlestock, a crowd-investing platform that is bringing hedge fund strategies closer to retail investors. He shared his thoughts on how they deliver value to customers.

Michel van Tol*, CIO at *Huddlestock

Michel has a long history in the hedge fund and investment field. He completed a Ph.D. in financial economics and then started to work at UBS. After around five years working in UBS's alternative investment wing, UBS O'Connor, he switched to another hedge fund called Meditor Capital Management. This institution was purely equity- and Europe-based.

> "I was brought in specifically to try to bring a quantitative element into the fundamental mix."

Michel says that what he was doing before Huddlestock outlined, to a degree, the path of the company. Huddlestock is a marketplace that provides all kinds of investors with strategies created by trusted vendors. They currently have only a few vendors operating on the platform, including Huddlestock itself; Michel says they take vendor selection seriously and constantly conduct due diligence of the vendors' ideas rather than publish thousands of low-quality strategies and not add value for customers.

Value and relevance

Michel feels that it's not so important to have a plethora of strategy suppliers and execute millions of trades. Success should be weighted by the value that the platform can add to investment:

> "We are solving a very specific issue. A lot of existing stock brokers are going to get disrupted by the zero-cost model. Let's step away from […] these silly transactions

> only. Why not add value? Why don't you have vendors use information and so on, and add value to what your clients are investing in and then do that as efficiently as possible?"

At Huddlestock, vendors are constantly monitored for relevance and performance. This process can't be done fully automatically, but there is no need to use too much manual labor. The idea is to find a few high-performing vendors and keep monitoring their activity. Michel says this thought was inspired by data from German stockbrokers:

> "[Let's say] a particular group had 97,000 accounts, 300 [of which] made money three years in a row, so the number of people leaving was basically a huge problem for them. Stockbrokers have three problems: one problem is, the costs are coming down. [The] second problem is, the cost of acquiring clients grows, and thirdly, where's the value added? [...] I think 300 happy clients out of 97,000 is just pathetic."

Hedge funds should take notice of B2B2C platforms

It's common knowledge that hedge funds are accessible only to premium investors. Michel claims that these limits are mostly because of regulatory constraints and the costs associated with managing smaller amounts of money. Platforms bring the cost of managing many clients down for hedge funds giving them another avenue to raise capital, communicate and engage with clients. At the same time, this means that the platforms should be integration-light.

> "When you have custodians in different countries, you have [Diversified Payment Rights] coming into the equation and all these complicated ways of [people working] together within the system. Obviously, that's not a trivial thing to solve."

Blockchain can simplify KYC

Michel says that there's a constant tension between what will work in an investment space and how to make that work in modern technology. Technology needs to reflect both an investment reality and simultaneously meet the needs of customers in terms of simplicity, ease of use and engagement.

> "We're trying to get a technology that fits within those investment constraints while making the investment process as easy as possible. [...] There is a truth on that end, and we don't try to twist the technology to fit the investment process in that way."

In Michel's opinion, it's a no-brainer that blockchain and KYC are going to go hand in hand. Obviously, KYC has got one big problem—one can spend days doing KYC, over and over again. It would make a lot of sense to have some kind of technology that can pass the information from one bank to another. Blockchain, to Michel's mind, fits this description. It can eliminate the need for constantly requesting and validating client data each time a KYC check needs to be done. Although, he says Blockchain is not impeccable now.

From Passive to Active Investing

Michel feels that there is a future in active management. ETFs are popular now because they are efficient. However, they harbor more risk than most expect.

> "Passive investing is likely to fail because people will think they are buying a diversified product but, at some point, they will come to realize that they are not diversified at all."

Michel says that rising interest rates require a deeper focus on the impact of these rates on individual companies. This is something that passive instruments will struggle to deal with.

> "ETFs buy stocks indiscriminately when money flows in and indiscriminately sell stocks when money flows out. When this is coupled with a move of liquidity out of stocks into ETFs there is a heightened risk of a liquidity event. That's why we would imagine that through time we would see the trend away from passive into active."

According to Michel, active exposure at the cost of passive exposure is their target.

Takeaways

In sum, Michel believes that there needs to be a balance between active and passive exposures. That balance shifts depending on where we are in the economic cycle. In his opinion, passive investing makes sense in the context of monetary stimulus at the beginning of an economic cycle, as was the case from 2008 through to now. The tightening of monetary policy and rising interest rates which we are seeing today should cause that balance to shift back towards active investing until the start of the next cycle.

INSART

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