

## BondWave Vision

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### An “Amazon” Evolution Will Triple Bond Investing, Trading Volumes Over Next Five Years

Equity investors would likely be shocked to discover that when they tell their advisor to buy bonds for their portfolio, it often happens over the phone (probably hard wired) like it's 1997. Over the last 20 years, even the smallest equity investors have enjoyed a level of transparency, information flow, market intelligence and execution largely absent from the bond markets.

As we move further into 2017, bond investors will finally start to experience a transformation that will enable them to see the complete bond universe and have access to tools that make selecting, monitoring and analyzing bonds more akin to shopping on Amazon than trying to navigate its namesake river.

### Investor Demand

Notoriously opaque, the complexity of fixed income investing and limited range of investment options leave many advisors scratching their heads when identifying offerings for their clients. A recent BNY Mellon survey of financial advisors and retail investors found that while a majority (56%) of financial advisors recommend holding at least some global fixed income securities in an investment portfolio, only 30% of retail investors reported holding any bonds.

Bond markets have the potential to see investment and trading volumes triple over the next five years as they begin to more closely resemble the equity markets. Participation by retail investors in fixed income could move from today's roughly 30% of current holdings to more than 60%. A contributor to this growth will be that fixed income markets will catch up to the equity markets due to their application of emerging technologies, greater transparency, and changes to market structure, all resulting in increased investor confidence.

## The Amazon Analogy

Equity investors are accustomed to intuitive interfaces and transparent pricing data that allow the application of a wide range of analytical tools to aid portfolio management. Bond investors have literally been ‘trading paper.’ There has been no single centralized database that captured bond prices across the total bond market. As a result, much bond trading continues to be executed through a network of brokers who only see a fragmented portion of the bonds available. So when brokers execute a transaction, it is done through a set of manual, analog processes that the equity markets abandoned over 20 years ago.

With the advancement of new technology solutions, the level of transparency, data insights and market intelligence will continue to evolve. Bond market professionals will have access to more advanced tools that enable them to efficiently manage and grow their businesses. The combination of technology, data and market structure changes will support more bond investing and promote more sophisticated, multi-factor and needs-driven investment solutions.

Online retailer Amazon is the best analogy to describe this transformation. Bond investors have essentially been shopping as if there were no internet, literally calling individual stores to see what inventory is available. Understandably, it’s difficult then to determine best pricing on a bond since at any one time a trader, advisor, or investor can only see a small portion of the available inventory and pricing data is largely a guesstimate.

In the near future, bond investors will have the option to shop for bonds (research) much the way any consumer uses Amazon. Just as consumers can shop for shoes (or anything else) on Amazon and see nearly the entire shoe market with real time pricing, bond investors will likewise see the broad universe of bonds and real time pricing – as well as enjoy access to a host of other valuable data sets and tools.

## Regulatory Pressure Driving Evolution

Regulation is another driver of this evolution. Since the 2008 financial crisis a wide range of regulation has been reshaping the financial industry, but the most meaningful aspects for the bond markets are just coming to fruition now. Among the more significant regulations are for Best Execution (MSRB Rule G-18 & FINRA Rule 5310) and of course the Department of Labor Fiduciary Rule.

The Best Execution rule MSRB Rule G-18 requires dealers to “use reasonable diligence to ascertain the best market for the subject security and buy or sell in that market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.” The DOL Fiduciary rule in a similar spirit requires any provider of investment advice to consumers’ retirement accounts to act in the investor’s best interest and addresses issues such as conflicts of interest, fee disclosure and suitability.

These regulations from FINRA, the MSRB and the Department of Labor are forcing trading firms, market-makers, dealers and advisors to consider how to centralize data, increase transparency and provide deeper analysis, necessitating innovation that harnesses more data and advanced technology.

The evolution is already underway in the bond markets and will begin to accelerate in 2017. Increased access to better technology and more data, coupled with the growing need among market participants for greater efficiencies, will propel the growth of bond volumes based on a greater ease of use, higher degree of investor confidence and much more intuitive tools. These capabilities will lead to not only greater efficiency but also broader adoption of individual bond investments among advisors and investors.

### **BondWave LLC (BondWave®)**

BondWave is a financial technology company specializing in fixed income solutions. We serve a wide range of customers, from small independent RIAs to some of the largest broker-dealers and custody providers in the financial services industry. Traders and advisors use our tools to provide a superior fixed income experience to their clients. By creating sophisticated, yet simple solutions for all stakeholders in the investment process, we help traders and advisors better leverage individual bonds as they work to achieve the investment objectives of their clients. Our tools enable strategy-based investing - including portfolio creation, monitoring and rebalancing - while greatly enhancing the communications between the trading desk, advisors and their clients. BondWave is liquidity and trade agnostic and our sole focus is to provide a simple, sophisticated user experience around individual bond investing. Additional information is available at [www.bondwave.com](http://www.bondwave.com).



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