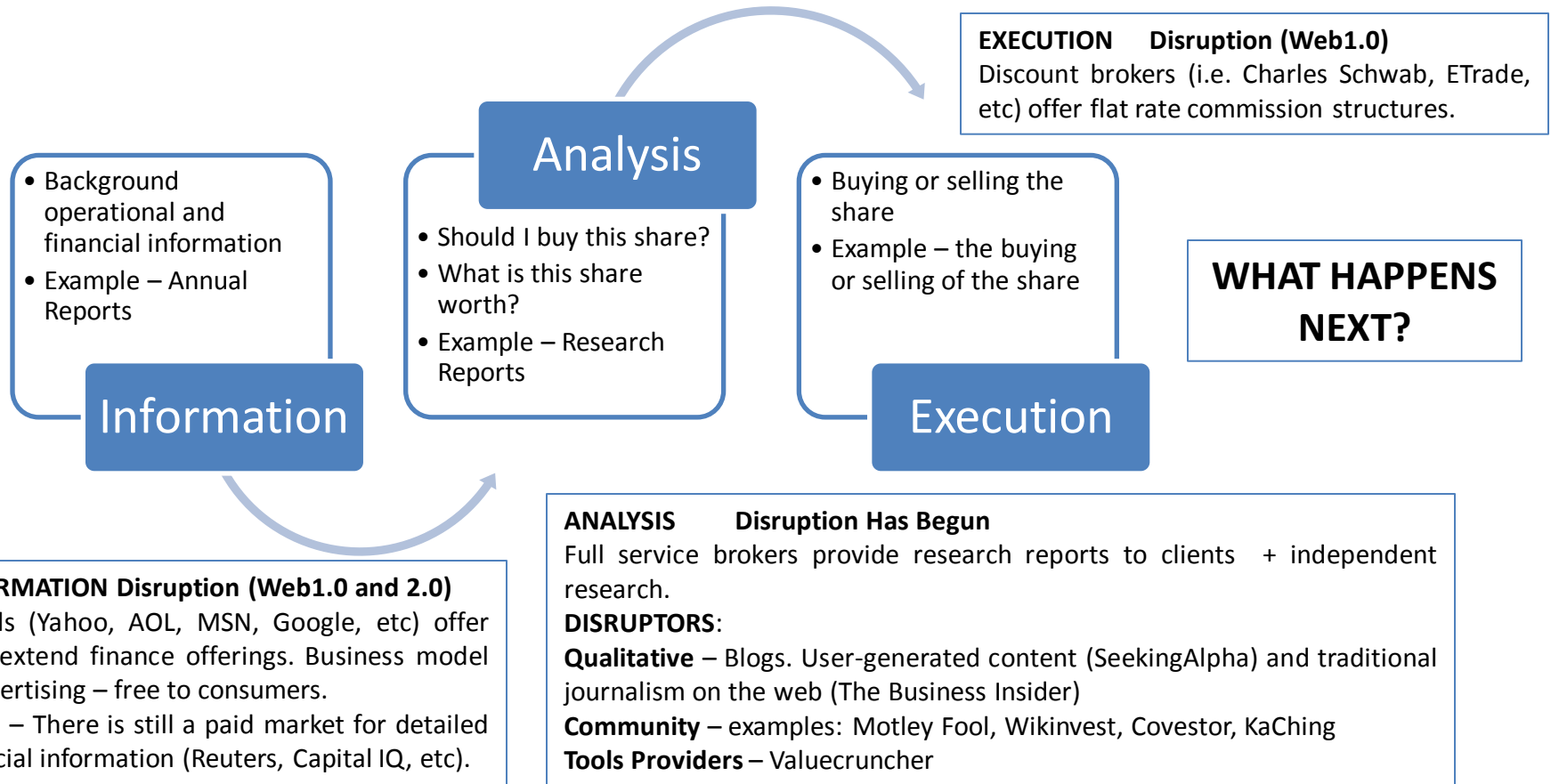


Now

On-Line Finance Strategy

The Investment Process

Pre-1995 this process was dominated by brokerage firms with full-service offerings.



Trends & Uncertainties

On-Line Finance Strategy

A trend is something that we feel certain is occurring. An uncertainty is something that could still go either way.

TRENDS

1. **Execution becomes a commodity** – executing trades will continue as a low-cost business. There will be some geographic-based regulatory moats – but no ability to generate abnormal returns. Other parties could enter this market (i.e. portals).
2. **Death of traditional equity research** – the current model is too expensive and producing research reports that are complex and hard for retail investors to consume. Traditional equity research will head the way of newspapers. There will be a space at the top-end for paid research but only a niche.
3. **Investor knowledge continues to improve** – the level of general investor knowledge continues to improve but there still remains a significant gap between the average retail investor and the corporate finance professional.
4. **Financial blogs continue to be influential** – high-quality analysis continues from blogs. Two models – aggregating content (i.e. SeekingAlpha) and traditional journalism on the web (i.e. The Business Insider).

UNCERTAINTIES

1. **Individual VS Collaborative** – how will retail investors choose to research investment decisions? Individual analysis – retail investors (with improving education) complete their own analysis on where to invest – both qualitative and quantitative. Collaborative – retail investors look to communities of investors for advice on where to invest – track record is vital.
2. **Free VS Paid** – financial information has proven to be an isolated area on-line where paid models have worked (i.e. WSJ). Moving forward – will retail investors be prepared to pay for financial information or will free win out?

SCENARIOS

On the next page we construct a basic scenario matrix. These scenarios are not meant to reflect concrete versions of possible future states but rather to illustrate the potential impact of the identified trends and uncertainties. There will be components of all of the scenarios in the future – this analysis is intended to emphasize trends and uncertainties.

Possible Scenarios

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Implications

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Discount Brokers - challenged across all scenarios

- Must follow a low-cost strategy and only add services if that will increase trades (and commissions).

Financial Blogs - winners across all scenarios (a role to play in all scenarios)

- Two distinct approaches – aggregating content VS traditional journalism on the web. We would expect one to come to the forefront (our bet would be on aggregating content – but it is too early to say).

Community Sites - winners in the “We Live In Public” and “Rock Stars” scenarios

- Significant opportunity if community is the way that people choose to make investment decisions.
- Business model has proven to be a challenge to date for the Motley Fool (“We Live In Public” scenario). More obvious if investors will pay to be part of the community (“Rock Stars” scenario) – this is currently unproven however.

Paid Finance Services - BAU in the “Walled Garden” scenario and challenged across all other scenarios

- Even in the “Walled Garden” scenario there is the potential for the paid financial services to be disrupted (low-cost disruption) by the portals offering extended services (like an enterprise level Google Apps). Currently users of paid services also use the free portal services (Yahoo Finance and Google Finance). There are limited options to defend this. Paid services do provide the data used by the finance portals. Reuters are moving into the portal space.

On-Line Finance Portals – winners across all other scenarios

- In the “We Live In Public” and “Rock Stars” scenarios – it is closest to BAU. These players are the ones with the ability to acquire or build community sites. Investors that are part of communities still require basic financial information and tools.
- In the “Super Commons” and “Walled Garden” scenarios there are big opportunities. Both require adding analysis tools. Partnering with financial blogs is key. Adding analysis tools is an arms race between the different finance portals.
- **Finance Portals Traffic** (current users) – Yahoo Finance > AOL/MSN > Google Finance
- **Age of Platform** (ease of innovating) – (newest) Google Finance / AOL and MSN / Yahoo Finance (oldest)

Valuecruncher – Potentially adds value to all players