



EXPERT INTERVIEW

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# Ritik Malhotra, CEO of Savvy, on the rise of tech-enabled wealth management

## TEAM

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# Ritik Malhotra, CEO of Savvy, on the rise of tech-enabled wealth management

By **Conor Gleeson**



**EXPERT INTERVIEW**

**Ritik  
Malhotra**

Co-Founder &  
CEO  
Savvy



## Background

Ritik Malhotra is the CEO and co-founder of Savvy. We talked to Ritik to learn more about the increasing digitization of financial services, especially for the rising class of tech-native high net-worth individuals.

## Interview

**Can you start off by talking a little bit about Savvy and the problem you're solving, target customer profile both on the client and the advisor side, and what needs to change about wealth management?**

Savvy is a technology-enabled wealth management firm. Think Compass Real Estate in the real estate industry, or Newfront in the commercial insurance space—we believe that same model applies to wealth management. We hire wealth managers with books of business and acquire wealth management firms, then



supercharge them with our own proprietary sales, marketing, and back-office automation software, all to help them dramatically grow top-line revenues and improve operational efficiency. The target advisor profile for us right now is typically one of two types.

Independent registered investment advisory firms (RIAs), which might have between one to five advisors with between \$50M and \$1B in assets under management (AUM). Our sweet spot is right at the \$200M AUM mark.

Individual advisors working at a wirehouse, independent RIA, or other financial institution, typically in the middle of their career (not looking to just retire and transition that clients over to another advisor), have lots of ambition left in them, and want to continue growing their books/revenue.

The target client profile is a high net worth individual or family. This is typically someone between \$1M-\$20M in net worth looking to have an advisor guide them through their holistic financial picture. These are individuals that have graduated from using a self-serve tool like a robo-advisor and want more personalized recommendations that go past just investment management.

**The wealth management industry worldwide estimated a whole \$90 trillion client AUM. How do you size out the opportunity for Savvy when you're talking to investors and how much of that market, call it the \$1 to \$20 million high net worth folks, is addressable for you?**

The way we look at it is how much revenue is generated on a yearly basis in wealth management fees and commissions in the United States specifically. (The U.S. is our primary focus). We estimate ~\$545B in revenue was generated in 2020 in the U.S. Of that, how much is attributable to the \$1M to \$20M net worth range versus the lower or higher end of the market? We estimate that it's roughly about 50%. This is the 50% that we're really going after.

**How does Savvy make money? Do you charge clients a percentage of assets under management, or like a flat fee subscription more like SaaS?**

Because we hire and acquire advisors with existing clients, we adopt the advisor's existing fee model (how they charge



clients) and split revenues between Savvy and the advisor. We don't come in and say, "Hey advisor, you need to be charging X percent or only a flat fee." Remember, they're bringing on their own clients, and so they have the functioning business – and we respect that.

The majority of advisors have a percent-based AUM fee. That is, they charge clients some percentage of the assets they are managing for them. Some of them may have certain clients that are on a flat dollar fee, but that's relatively uncommon. The industry average is 1% for AUM fees. But as you go higher on the net worth scale, typically that can drop down to 50 basis points. We think this aligns incentives: if revenue increases, so does the take-home for the advisor and for Savvy.

**Can you share any early signs of product market fit they have?**

We're actually in the process of undergoing an acquisition of a firm right now. The firm's primary advisor has seen the different models of how wealth management firms can be built, and there was a lot of vision alignment early on with what he believed the future of the industry was trending towards and what we're doing at Savvy. We've collected approximately ~80 hours worth of direct consulting time with him to validate every single part of the day-to-day operational workflows of a wealth manager, understand where technology can be applied to automate or improve parts of it, and what we can build in the future. Beyond that, we have over ~20 individual advisors that we're in various phases with to breakaway from their existing firms and transition to Savvy. These advisors share the technology-enablement of the industry thesis too.

**Can you talk about how you structured deals? There's players like Focus Financial Partners and Hightower that will give advisors cash or equity in their own business or management companies in exchange for the cash flows. How do you think about structuring these types of deals, and can you talk at all about how that looks?**

We've found that a mixture of cash and equity in Savvy, depending on the individual's risk tolerance, is what works best. We're relatively flexible within ranges since we're still in early days, and that gives us a key advantage. It's especially important to align incentives early on, because these advisors



are making a bet on the future of Savvy — the future product that we build over the years to come will be dramatically better than what it is today as well as dramatically better than the status quo. This is why we aren't just looking to acquire any firm or wealth manager out there. We hand-select advisors who have demonstrated incredible track records and are looking to partner with us in developing our future roadmap. More than accepting a financial payout, they're taking a bet on us and putting in the effort to share the upside.

Beyond equity incentives, the second component is the split between up-front payment vs. promissory notes. With promissory notes they're guaranteed payments, but the value is contingent on the percentage of client retention in the first year. Typically, the first year is where you see churn. The third component is typically for the advisor's ongoing compensation — typically either a base salary plus a target bonus, a percentage split of revenues of their book of business, or a combination of both.

**Traditional wealth management is a high-touch business. Can you talk about the margin profile for Savvy advisors? How you think about balancing services versus tech and the trajectory of Savvy's margins over the long term?**

This is a key part of the business. The way that we think about this is, "What does the margin bridge look like?" In other words, what does the P&L look like today and what will it look like in the future with Savvy's products?

There are two levers here from a financial perspective: the revenue generated from clients, and the operating margin of the advisor, which combined produces EBITDA. The first lever is on client acquisition. We use sales and marketing automation that we have experience building at prior tech companies, establish and scale channel referral partners, and employ other growth tactics that today are missing in the traditional wealth management industry — or at least not being done well by anyone today. We think our investment here can dramatically improve client prospecting, acquisition, and conversion, impacting top-line revenue growth.

The second lever related to revenue is "can we get additional revenue per existing client?" Typically the average share of wallet that an advisor holds is ~55% of a client's net worth. A





lot of client assets sit outside the advisor's purview because they're at a different custodian, they're in a 401k or IRA account, or they're locked up in private stock with a different custodian. We hope to use Savvy's technology to help advisors both identify and manage these additional "held-away assets" over time.

We've run the math and have a strong thesis that with these two levers working in hand-in-hand, we stand to ~4x a target advisor's existing revenue. This is the thesis we're working to prove out with our first set of early advisor partners.

The third lever is operating margin. Typically when firms want to scale past a certain point, they need to hire other wealth managers, hire support staff, lease commercial building space, etc., and that's when you start incurring the real costs as a growing wealth manager. We find these growth oriented firms look at a typical operating margin in the 25%-30% range. Not bad, you might think – just the cost of doing business. But we believe we can get that number up to ~60% range by building the right technology that can reduce or automate away a lot of these costs that exist.

**Wall Street firms like JP Morgan or Goldman Sachs have a brand that some founders might look at as if they've "made it." How do you compete on brand status, things like that?**

Advisors are waking up. Take a look at the industry data: if you look at the percentage of wealth management AUM held at independent firms versus the traditional wirehouses, the dollars have been flowing towards the independent side for the last decade. Experts project the "crossover point" might actually be by the end of 2023, where independent firms will hold a higher percentage of total AUM than traditional wirehouses.

This is a strong tailwind that works in our favor as advisors look to break away from the big wirehouses. Their payouts aren't great, their tech is 10 years behind and can't get the job done, they aren't true fiduciaries, and internal bureaucracies have whittled away any sense of independence. Wealth managers want to solve these problems, but often don't want to incur the risk of starting their own independent firm. Some have done it as the only option, but then come to learn about



the drags of running a business versus being a great advisor. The sweet spot is for them to take the middle ground and “tuck in” to an independent wealth management firm that has the right tools and support for them to do their best work. Savvy takes this middle approach. We empower staff to prospect and serve clients, but also arm and train them with technology that actually works and that support staff they need, allowing them to operate just as they would if they opened their own independent shop, without the operational burden of running their own business.

This is a superpower. Clients know and appreciate good technology when they see it. Advisors come to us and say, "Wait a second. I can get more clients if I can tell them that I have all of this support technology behind me." Not only is the experience they get with one of our advisors 10x better than the status quo, but they get a full client support staff dedicated to them to help them meet their financial goals. That works really well. It's similar to how Compass positioned themselves: they're going after the top 10 or 20 percentile of real estate agents, and that's who they build for. We're building for the same top 10-20% of wealth managers, which is why we don't hire any wealth manager or RIA. Each goes through a rigorous screening and interview process and having an existing book of business is a prerequisite. This is our focus.

In terms of how we think about clients, this is a “phase 2” focus for us. I would say, though, that our approach will be a little more targeted in the sense that clients who are 55 or younger or have a general affinity to more tech-forward solutions are easier to build a brand for, because there's so little being done in this area today. This generation is more open to change than say, staying with the same wealth managers their parents used just because he/she/they were passed down to them.

Since our go-to-market is largely focused on advisors being at the front and center, this isn't a 100% product-led growth type of company where clients need to build a super strong affinity to the brand without seeing any advisors. We think that our ability to attract top advisors will be a superpower, rather than clients saying, "Oh, I need to be at JPMorgan." High net worth clients are not stupid. The decision on who they trust their money with is going to be based on who has the most cutting edge advisor talent.



**Some do-it-yourself founders and employees have opted to manage their own money via robo-platforms like Betterment, Ellevest, and M1 Finance. When is the tipping point where people need a Savvy?**

One is net worth. Once it crosses a certain number, we've found both qualitatively and quantitatively that people want to switch over. What is that number? It's hard to say exactly, but we typically see it at the \$1M mark. As soon as that happens, there's an inclination to start considering other options.

We did a quantitative study of high net worth individuals—particularly between \$1M-\$10M net worth—and 85% of them said that they would want a financial advisor—an actual human—to speak with. 6% of them said that they'd be willing to consider using a robo, or that they do use a robo, at that scale. However, 100% of the respondents that would want a financial advisor said that they would be okay with the financial advisor using a robo. What we learned is that they value the human element, they don't like the robo piece, and they're okay if the advisor uses technology to do certain automation on the backend.

The other tipping point we found is around the start of any sort of big life event, such as buying a house or planning a family estate. When these financial planning types of decisions typically come up is another time when switching over might make sense, regardless of net worth.

**What does the tech stack look like at Savvy, and how do you manage vendor selection? Which tools are you using to build dashboards? What do you think about build versus buy? And when you acquire a new firm, do they switch over to use your prescribed tech stack, or are you vendor-agnostic?**

We do the build versus integrate decision on every part of the tech stack. In each area, typically we're integrating with one or two providers for each category, like risk management software, financial planning software, etc.

We've built the system to be super flexible, so it'll integrate in the back with multiple different pieces of software, without the advisor even knowing. Over time, they won't even have to navigate themselves to that software to generate what they





need. Eventually Savvy will be the frontend for both the advisor and the client, and will be the platform generating the reports. We might still use other pieces of software to translate the data to our logic—performance analysis, for instance – but wouldn't use them for their actual front end. Over the long term, we may replace a lot of these integrations with our own in-house tools to maintain full control over the advisor stack.

**Many robo-advisors and digital wealth platforms in the past have failed due to high customer acquisition costs and the inability to scale over \$10 billion in AUM. How does Savvy approach customer acquisition, marketing, and getting new customers for advisors?**

High CAC is certainly a problem. Two things I think work in our favor. One is that our average account size is higher than that of the robo-advisors: typically robo-advisors are sitting at sub-\$100k in terms of average account size. Second is from a fee perspective: if we're thinking 75 to 100 basis points in fees at the Savvy level, this is more like 20 to 25 basis points for robo-advisors. Both work in our favor as we can support a higher CAC and still get favorable economics.

The other piece is that your typical advisor churn is around 2% to 3%. Assuming it's 3%, that means a 28-year LTV lifetime for an individual client. That gives you a lot of room to play with, because the advisor-client relationship is actually extremely sticky versus the robo-advisors, who don't have that kind of luxury.

In terms of actually acquiring customers, the approach we take right now is acquiring books of businesses along with advisors who meet our early criteria. There's an imputed CAC that we're getting there, but we've also acquired an asset. That list of clients is on the balance sheet and is worth something in the future. If we can retain that 3% (or less) churn, this acts more like an annuity that we have on our books.

From a playbook acquisition perspective, we know about ~20% of the wealth management market is comprised of advisors aged 65 or over, and many of them are looking for succession plans. Acquiring those books and spreading them out over our in-house advisors who are in the middle of their careers and have strong ambition to grow is another strategy that we hope to implement. That's value-accretive since these CACs are relatively low when just acquiring the books.



**In recent years we've seen the digital transformation of the RIA back office with tools like Addepar, Riskalyze, Stratify, eMoney and others digitizing wealth dashboarding for RIAs and providing their clients a digital-first client experience. What trends have you seen for why RIAs choose these tools, how they choose between tools and how they assemble their stacks?**

Let's talk about why RIAs choose these tools. Typically, an advisor is going to look at it as, "Hey, what are the jobs I need to do?" These start with financial planning—that's future retirement planning, cash flow planning, and answering clients' questions like "Do I have enough money to buy a house?" Then there's the risk management piece: what is the investment mix I should have based on the client's risk? There's reporting: how can I show my clients how things are going? And there's billing: how can I charge my clients? These are all just the ongoing tasks. Then there's the other front-end piece: how do I prospect and find new clients? How do I handle the sales calls and reach them with marketing? Then there's the onboarding itself, which includes account openings, custodial transfers, and collecting all the pertinent information.

So there are the pre-sale, post-sale and ongoing pieces. Breaking those down, advisors can pick and choose the software if it exists in each of those categories and assemble their own tech stack. Why don't all RIAs do this? It turns out that very few think from a technology-first perspective and go piece together these eight pieces of software that'll take care of every single element here. It's rare to find someone that has put together the entire stack.

Moreover, if an advisor does assemble the stack, now they have to manage eight pieces of software that don't necessarily talk to one another, so they're constantly switching between them and copying data from one to the other. One advisor told me they spent 40% of their time not in front of clients, but instead moving data from one tool to another—transforming it in some way in Excel, copying it over there, then doing it in some other form. Each software generates 90-page PDFs that are supposed to be client-friendly, but no client wants that—they want three bullet points—so then advisors have to spend time shrinking that down into a 10-page document and come up with the TL;DR bullet points on their own.



We believe that technology could be the glue between these pieces and prevent advisors from having to think about managing all these pieces of the stack—just use one frontend. We can do all the data transformation and consolidation of the information, so that all the advisor has to do is click a button, get one PDF with the most salient points, and present it to the client.

**Other players like Compound have raised large funding rounds to tackle problems unique to startup employees and founders, venture capitalists, etc. Do you view them as competitive, or is that a different model? How do you see the landscape of tech-enabled wealth management?**

I think Compound is a phenomenal company. It's not competitive, though, because it's a completely different model. The go-to-market motion is really key here. We might be building similar tools on the backend, but our go-to-market actually positions us as competitors closer to one of the aggregators in the RIA space, rather than some of the Compounds of the world.

In terms of the landscape of tech-enabled wealth management, there's two ways to slice it. There's quite a number of startups in the space of building software. They look like enterprise SaaS, effectively. Vise is a popular one on the investment management side, and there's a number of other software providers there. Then there's the full-stack "I'm a wealth management firm that is technology-enabled," which kind of looks and runs like a tech company. We think there's actually very little activity there, so that's really the area we're going after. Obviously, Compound is one approach, and I think we have another interesting one that differs in go-to-market approach.

**Many advisors will meet with investment bankers or aggregators like Focus Financial Partners or Hightower when contemplating selling. What's your pitch in a competitive M&A bake-off with an advisor? Assume it's a typical mid-career, 40-year-old advisor with a decent sized book of business.**

A large part of it comes from the technology enablement side. It's a super unique story. A lot of the Hightowers, Focus Financials and Dynastys of the world will say, "Hey, we have a



technology team and all that stuff.” But the way that we present and position ourselves is that this isn't a technology team that's picking and buying the best pieces of software to aggregate costs and to reduce them from a private equity or consolidation perspective. We are technology first. This is a team of early engineers at Facebook, Airbnb, Brex, etc. and building the technology from the ground up, so that we truly are gaining the leverage together. That story is super compelling and is a differentiated perspective.

The other part of the story is the “sell-and-stay” story: they get acquired and they stay here. Oftentimes a lot of the M&A activity is around succession planning, or maybe a couple years out, and the advisors move on. This tackles a different market, which is why we also look at the lower end—so, sub-\$1B AUM. Typically, the sub-\$1B AUM folks are not even being contacted by the super large aggregators. I think Focus even said in their last earnings call that they only look at \$1B+. It's just a completely different conversation when it comes to that.

**What are common problems that Savvy clients face? What needs do they have that other wealth management firms might not be able to address?**

It comes down to the fact that the other wealth management firms that our clients have looked at typically aren't able to do what we can from two angles.

The first angle is the technology piece: let's call it an efficient and effective communication mechanism. A digital portal can communicate a lot in terms of the existing portfolio, and it can answer a lot of questions for the client, which is a big part of wealth management. Kind of like your financial therapist. The ability for a client to be able to log in and see where their portfolio is at, a list of what's happening now and what we're doing in the background for them, the ability to contact their advisor at any time, receive automatic updates vs only get them on quarterly performance calls. That technology enablement and digital access is a huge part, because people expect this level of access and communication now.

The second angle is that many of these clients, whether they know it or not, are looking for holistic planning. They don't want someone that's going to do only investment management.



They want someone who thinks about taxes, estate planning, trusts—all of those pieces through one holistic lens. The forward-looking vision for Savvy is that we would eventually consolidate all of these, whether it's through communication or the acquisition of some of these other service providers. A lot of the smaller, sub-\$1B AUM firms aren't able to provide an all-in-one solution from a cost perspective, and they usually have to refer clients out to other service providers. That's a little more forward-looking, but it's a core pain point that we've found.

**How does Savvy handle crypto? Taxes and reporting have been a struggle for many investors and traders. What solutions do you offer clients on this front?**

There are two lenses to look at it. From the wealth management perspective, we are very advanced. And then from a technology perspective, I think there's a lot more that we can be doing.

Number one, we have the ability to track crypto assets, which are what the industry calls “held away assets” because they're not custodied with the same custodian that the advisor is at. We're able to peer into that and have the advisor actually able to control and trade those assets on behalf of a client. It sounds simple—you make a connection through Plaid or an equivalent—but it's important, because not having the ability to peer into this means that you can't make accurate financial planning decisions. If you have crypto as part of your asset mix and the advisor knows that, then you can start to think, “Well, do we treat this as an alternative and therefore consider another blend of investments?”

From a taxation perspective, while it's not technology-enabled just yet, we have close relationships with some of the more tech-enabled crypto tax providers, and we can do the hand holding there since we have access to the accounts. It's good to help manage that process.

**How do you help founders and employees with liquidity? Platforms like CartaX and Nasdaq Private Market allow for secondary sales of stock, and new entrants in the market like Quid, Secfi and Vested are offering liquidity loans for pre-IPO employees. Is this something that Savvy might tackle, too?**





Before starting Savvy, the original thesis was actually that this might be an interesting way to approach the market. But we did not go down this route, and we don't think it'll be a core internal competency for us to be the underwriter and extend these loans. At the same time, we do think we'd probably take a close partnership approach with the Quids and Secfis of the world. What that might look like in the future is that, first off, we have access to employees and can peer into Carta, Pulley and other accounts to see what the shares look like. Then, can we have direct access into the secondary platforms, like Forge and EquityZen, to understand where the market's trading at and if there's liquidity opportunity. The third piece is looking at whether there is liquidity from a loan perspective for option exercising. That's not on the roadmap, but it's what we've spec'd out in our heads for how we would think about it if we did it. Again, this is much more forward-looking.

**Why haven't players like Fidelity, Schwab, BlackRock, or Vanguard set up RIA turnkey asset management platforms (TAMPs), technology platforms, or even aggregator type funds? Why wouldn't it make sense for a large asset manager or custodian to ultimately enter into this market?**

Let's start with RIA turnkey asset management platforms. Fidelity and Schwab do have an advisor platform where they allow RIAs to manage their custody of the assets of their clients. That's their version of the technology piece. They let them send documents to clients and other pieces there. But when we do customer calls, we typically ask advisors, "What would you grade those platforms and other software you might use?" Relatively consistently, everyone arrives at a C-. So they have something, but the quality could be better.

From a TAMP perspective, these custodians support "separately managed accounts," or SMAs. What that means is they allow advisors to come in with third-party software—that is, these turnkey asset management platforms—and hook into them to manage those assets using this external software. I think these players might eventually evolve on the TAMP side. The way these brokerages are structured (they think of investments and assets first) might actually make them pretty good at creating a TAMP of their own.

You can see the aggregation already. A lot of robo-advisors have been acquired by banks. On top of that, there's been a



huge acquisition spree in TAMPs. A bunch of names that probably aren't as well-known in the industry—Parametric, Aperio, Just Invest—all have been picked up by these big brokerage houses because they want to enhance their asset management capability internally and offer easy access. So there's some good stuff happening for these larger players, but we still don't feel like they're ultimately going to enter and crush us. What they're not focused on is how to improve advisor efficacy and give them the tools to relentlessly grow their books, which is their main KPI. I think it would take an RIA who is much closer to that customer, because the incentives are so tightly aligned: if we improve the operational efficiency of our advisors and also top-line revenue, they win and we win. It takes that level of integration. Whereas Schwab doesn't necessarily need to get into that game, and that's not what their goal is. They're okay just being a platform. That's why we don't look at them as that big of a threat.

We've spent a lot of time thinking about this and studying the hot-swap model (Compass Real Estate, Lemonade, Newfront). What we've found over and over again is that the traditional firms are not going to be the ones attracting top talent from Silicon Valley-type companies, and that's what's required. You need to have a relentless focus on product, technology, marketing, etc. By attracting that top talent and taking that technology-first approach, you can have a much higher velocity in getting the right products out, versus banks that are spread too thin across other priorities.

**What adjacent products and services can you offer to Savvy clients in the future that you're not currently offering?**

Advice, planning, and investment management are our core focus in the short term, and that's through the acquisition and accumulation of clients and AUM. When we have a strong base of clients with trusted advisors, we can help them whittle down the ancillary service providers and financial providers that they may have to go to.

We asked ourselves, "What are the typical financial products these high net worth individuals need for which they might have to go out of their RIA?" One is risk management—umbrella insurance, life insurance, disability, home, and so on



—but for the RIA it's less about “Can we be an insurance company?” and more about “Can we be the broker?”

Another is mortgages. Mortgage requirements are different if you're a high net worth individual. Your assets are probably more valuable to underwrite than your income, or you might have retired early. Typical mortgage brokers don't see that nuance, though—they just look at W2 income. That's why we saw a potentially interesting underwriting opportunity there.

A third is margin lines of credit on large assets. Instead of liquidating and paying taxes on that liquidation, you could actually just draw down a very cheap line of credit instead.

Those are three that we're thinking about, but there's plenty more out there. We consider this our Phase 2 of offering financial products. Phase 3 is the point where you vertically integrate the entire stack and actually become a custodian brokerage house and banking operator for these clients, because then they don't have to go to another platform like a Schwab at all. Obviously that's a super-difficult problem, but that's how we think about it in terms of a long-term, five-plus-year roadmap.

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