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Wealth strategies that used to be reserved for billionaires are becoming more accessible

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- **Investment tactics often require big buy-ins and high fees.**
- **New tech is lowering the price of entry in fields like direct indexing and private markets.**
- **This article is part of "Transforming Business," a series on the must-know leaders and trends impacting industries.**

Investing like a billionaire comes with a high price tag. But thanks to technology, the barriers to these elite opportunities are starting to crumble.

Consider direct indexing, a strategy favored by the rich to lower taxes by selling underperforming stocks and using the losses to offset other gains. These personalized portfolios used to be out of reach of the merely affluent, requiring steep account minimums. Over the past five years, direct indexing has exploded as technological advancements have made it worthwhile for wealth managers to offer the services to Main Street customers. The account minimum for Fidelity's FidFolios, for example, is only $5,000.

"Direct indexing has become accessible at a different level of wealth than it has been in the past," said Ranjit Kapila, the copresident and chief operating officer of Parametric. "That wouldn't have been available or possible without the technology trends we've had to be able to do this level of computation at scale in a cost-efficient manner."

Parametric, the pioneer of direct indexing, is also moving downstream. By adopting fractional-share investing, Parametric lowered the minimum for its core product to $100,000 from $250,000. The firm plans to offer a direct-indexing product with fewer customization features for $25,000 in 2025.

Private markets face steeper hurdles. This opaque field was traditionally reserved for deep-pocketed investors like pension funds and ultrarich individuals. But now investors have more access to financial results for funds and privately held companies as data providers race to meet their needs. Machine learning and AI have made it easier for these firms to extract and analyze data.

BlackRock views this data as the great equalizer and has grand ambitions of indexing these opaque private markets. The asset-management giant agreed this summer to acquire the data powerhouse Preqin for $3.2 billion.

"We anticipate indexes and data will be important to future drivers of the democratization of all alternatives," BlackRock CEO Larry Fink said on a conference call. "And this acquisition is the unlock."

Leon Sinclair, Preqin's executive vice president, argued that with the number of public companies dwindling, it's imperative for mass-affluent investors to get better access to private markets.

"Clearly there's more, deeper, better sources of funding for private companies that could stay private for longer," Sinclair said. "I think it's fair that the mass affluent can — in the right way — be brought along on that journey to get exposure to that part of the mosaic earlier."

Investing in automation for a competitive edge

Kapila described these technological developments as part of a trend in wealth management to capture customers before they make it big.

"There's a desire by financial advisors to try and engage investors earlier in their wealth-accumulation cycle," Kapila said.

Parametric, acquired by Morgan Stanley in 2021, operates in a competitive arena. Thanks to a wave of similar acquisitions, Parametric faces well-capitalized rivals such as BlackRock's Aperio and Franklin Templeton's Canvas. Industry stalwarts like Fidelity and upstarts like Envestnet also want a piece of the action.

Kapila said the need to compete on scale and fees required Parametric's technology to be as efficient as possible.

"It'll be harder," he said. "We have to do many, many more accounts to really drive growth in assets, etc. But those challenges are exciting to me as a technologist."

To meet that need, Kapila is pushing Parametric to develop more automated products, such as Radius, which launched this year. Radius constructs equity and fixed-income portfolios and runs simulations to identify the best selections for portfolio managers. He plans to launch more cloud-native tools, which are easier to scale and manage, for other asset classes in 2025 and 2026. Parametric is also piloting generative-AI tools to onboard accounts more efficiently.

Clients' expectations are also rising. There's demand for Parametric's tax benefits but with actively managed strategies rather than indexes, he said, spurring partnerships with asset managers.

Parametric recently launched an offering that allows customers to pick equities off strategies from the financial-advisory and asset-management firm Lazard.

To stay ahead of the curve, Preqin is developing more sophisticated products. Last year, the UK firm launched an Actionability Signal that uses machine learning to identify private companies likely to be open for investment.

"The sole focus on public information for certain tasks around valuation and risk management are not really going to be the way that people do this," Sinclair said. "We're moving much more to a world where real proprietary private information at the asset level, which is transactionally oriented, is available to people."

In June, his division launched a data tool that analyzes $4.8 trillion worth of deals across 6,500 funds. This database can be used in a slew of ways, from backing up valuations in negotiations to identifying which financial factors, such as revenue growth or debt paydown, contributed the most value to a successful deal.

With the rise of generative AI, Sinclair expects that users will be able to interpret data with more ease using natural language commands.

"I think you'll see that be more prominent across the industry where people expect to interact with large data sets in really natural common ways," he said. "We think all that will probably start to be visible over the coming years."

Tech is the first step to narrowing education gaps

On average, retail investors allocate just 5% of their portfolios to alternative investments. If BlackRock successfully indexes private markets, it could go a long way toward boosting that percentage.

However, Sinclair said more work is required to help mass affluent investors feel comfortable investing in private markets. As someone who grew up working class and was only introduced to finance in college, he knows there is an education gap to overcome.

"To get Joe Bloggs very excited and comfortable with committing capital, they need to be able to understand what the different basis of those returns are," Sinclair said.

He added: "I think it's in the industry's interest to enable those new sources of capital, to bridge the gap in understanding, to bridge the gap in analytics, to bridge the gap in frequency of reporting, to make that an easier journey for people to go on."