

S&P Dow Jones Indices

A Division of **S&P Global**

FA Talks

A Practitioner's Guide to Accessing Next Gen Sectors with AI



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FA Talks is an interview series where industry thinkers share their thoughts and perspectives on a variety of market trends and themes impacting indexing.

How are financial advisors with an eye on the future using future-based tools to meet client goals today? 21st century sectors represent the foundation of the Fourth Industrial Revolution. The [S&P Kensho New Economy Indices](#) are designed to track emerging technologies that are reshaping traditional industries and driving this seismic shift. Lisa and Mark Bova of Lenity Financial see Financial Services as one of the industries at the forefront of these changes.

S&P DJI: How do you manage portfolios today at Lenity Financial?

Lisa: We utilize goals-based investing and use a tactical approach. One of the first questions we ask is about a client's past experience with money, which includes long-term insights—meaning what they did or didn't learn from their family. Based on their history, comfort level with risk, and their near-term needs and long-term goals, we work with our clients to determine their “risk budget,” which essentially defines how hard or not their money needs to work for them in order for them to reach their goals. Overall, we manage tactically. We can be overweight, underweight, or neutral on an asset class, segment of the market, or even risk. It all depends on the goals and risk budget of the individual client.

S&P DJI: Why was it important to you to find a passive solution using Artificial Intelligence to help meet clients' needs?

Mark: In today's markets, there is so much data and the market moves so quickly that we needed a way to effectively and efficiently process the constant stream of information. We were looking for a way to employ AI in our process and we found the S&P Kensho New Economy Indices. Kensho has a meaning—it is an initial insight or awakening. In what is believed by many to be the beginning of the Fourth Industrial Revolution, having the S&P Kensho New Economies in our

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toolkit made sense. We're futurists and we see financial professionals working with machines as the way forward. Data is a critical component to AI. There has been so much data collected in the past several years, and S&P DJI has been one of the most pervasive providers of data for decades. Think of it, Henry Varnum Poor published *An Investor's Guide to the U.S. Railroad Industry* in 1860. So, the ability to access the powerful combination of data and cutting-edge AI through the S&P Kensho New Economy Indices was a perfect fit for us.

S&P DJI: Can you tell us more about being futurists and how this perspective shapes Lenity's strategies?

Mark: Well, if you're a futurist, you think about the trends today and how they might impact our future. We think that ESG is going to play an increasingly bigger role in all of our lives, therefore we use ESG as a prism through which we look at our portfolios. Let's use energy as an example; we use the [S&P Kensho Clean Power Index](#). Take a look at oil demand... think about our ability to change the way that we harvest oil in the earth. By coming up with new technologies to do this, it helped the U.S. become one of the largest exporters of oil in the world, and the country's reliance on this commodity is no longer halfway around the world. Assuming that consumers' demand for energy remains the same or even increases, alternative means of production like solar, wind, geothermal, and hydropower are moving to the forefront in this Fourth Industrial Revolution. These alternatives continue to come online to meet the demand, continuing to put downward pressure on old economy assets like oil.

Lisa: And there's more... think about the [S&P Kensho Final Frontiers Index](#) and the space race between Amazon, Virgin Galactic, Space X, Boeing, and others to get to Mars or back to the moon. The S&P Kensho Final Frontiers Index offers the ability to invest in companies whose products and services are driving innovation behind the exploration of deep space and deep sea. Elon Musk says there's a 70% chance he'll move to Mars. Now, whatever you think of that, the guy's been pretty successful and has accomplished what he's set out to accomplish—a futurist like few others. Furthermore, Amazon's Jeff Bezos is dead set on exploring space.

S&P DJI: The Fourth Industrial Revolution may not be familiar to some investors, can you share your "critical" takeaways and why you think the S&P Kensho New Economies are the right tools for capturing these next gen sectors?

Lisa: Research from the S&P Kensho Indices team at S&P DJI states, "By definition, Industrial Revolutions entail radical and pervasive changes in both the product and services that companies can and do deliver, as well as how they generate these novel outputs."¹ So, consider just what are the products and services that are participating in the radical changes we see today? Think of drones, self-driving vehicles, blockchain technology, the Internet of Things, social media, wearable technologies, cloud computing & storage, cybersecurity, and advanced virtual reality to name a few. Without the speed and process of AI, we believe the speed at which change is occurring in the new economy could leave investors behind. So, whether it's the S&P Kensho New Economy Indices or another form of AI research you use for your ESG and growth portion of your portfolio, you've got to get on board.

S&P DJI: What are some of the ways you're using these 21st Century Sectors?

Mark: We use the S&P Kensho New Economy Indices as a holding place while ferreting out the individual names that we want to overweight. We also use them to reduce the risk of individual positions in a given portfolio yet remain in the sector, and to leverage technology as a way to increase efficiency. Additionally, we set an opinion and look for the most accurate way to articulate it. So, understanding and believing that the Fourth Industrial Revolution is underway, we look for ways to express our agreement with this opinion.

¹ Dane Rooka, Adam Salvatori, John van Moyland, and Paul Rosa. "[Innovation Patterns: Upgrading Sectoral Classification for the Fourth Industrial Revolution.](#)"

The World Economic Forum has stated that we are at the beginning of a Fourth Industrial Revolution. They have also stated that it will be, “more comprehensive and all-encompassing than anything we have ever seen.” So we think that, as an advisor, you’ve simply got to get on board and identify companies that will participate in this new economy. We agree that innovation is rapid today and that we must help our clients to participate in this growth. Yet, given the speed at which industries are changing, it is a daunting task to figure out just which companies are going to be the next leaders. Therefore, we’ve chosen the S&P Kensho New Economy Indices to help lead the way for our clients. Before the S&P Kensho New Economies, only analysts at Quant Funds could keep pace with the velocity of information and the custom programming required to achieve significant market insights. Today, through the indices and the strategies that track them, the tools are broadly available.

S&P DJI: How do the algorithms inside the S&P Kensho New Economy Indices, including the “Warren” algorithm, help save you time in researching?

Lisa: The machine learning and algorithms used by the S&P Kensho New Economy Indices are designed to find patterns and the “greatest common denominator.” The indices use an iterative algorithm to perform bidirectional mapping. What this means is this algorithm processes lists of technology and innovation trends from credible sources, ranking technologies and trends within the lists by the frequency with which they appear. Any technology or trend that fails to directly map onto one of the five axes of innovation is discarded. This alone is an incredible time saver compared with the time it might take for independent research. And since it’s all about the data in machine learning, what an incredible combination to have the resources of S&P DJI’s abundance of data married with Kensho’s processing power.

During industrial revolutions, economies change and completely new sectors can be born through innovations. We’re focused on utilizing technology and machine learning wherever possible, so when it comes to something as exciting yet overwhelming as the Fourth Industrial Revolution, employing the S&P Kensho New Economy Indices helps us save time while achieving our client’s objectives.

Keep in mind, we still value our independent research. Because we utilize goals-based investing, we understand our client’s needs and their level of risk tolerance first and foremost. Then, we match their goals and risk tolerance to their investments. With the fastest growing part of our population aged 85+, we work together with families across generations to make sure we are thoughtful about the growth in their portfolios as we’re on average living longer.

So, the democratized access to this type of cutting-edge growth strategy is increasingly important to our practice. We are about maximizing efficiencies and costs with an eye to the future, as well as our client’s bottom line.

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