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Editor's Letter

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This issue of JAI focuses on Financial Technology, nowadays known using the term FinTech. I am grateful to David LEE Kuo Chuen for serving as the guest editor for this special issue.

FinTech is the marriage of digital technology and financial services as FinTech firms aim to offer financial services by making use of advances in mobile communications and computing technology. Financial service providers were early adopters of mobile technology with PayPal being a prime example. However, recent technological advances in this area along with the increased purchasing power of tech-savvy and sophisticated millennials, the list of services and products that are listed under FinTech has grown exponentially in the last 5 years. Today, FinTech companies directly compete with banks in most areas of the financial sector to sell financial services and solutions to customers. Banks with their legacy systems and burdened by regulations are unwilling and unable to embrace the new ways of offering services to their customers. Emerging FinTech firms have seen this and realize that financial services such as payment systems, lending, investing, and advising must be delivered in a cost-effective and convenient way if they are to compete with their well-capitalized competitors.

The most widely recognized product of the FinTech revolution is bitcoin, which highly appropriate as bitcoin and its ecosystem (e.g., blockchain) embodies the potentials and pitfalls of this revolution. Blockchain, we are told, will revolutionize the financial system by introducing efficient and inexpensive methods of record keeping and executing financial transactions while bitcoin is supposed to compete with major national currencies as means of payment and with gold as a store of value.

In his introduction to this special issue, "FinTech and Alternative Investment," David LEE provides a detailed discussion of the FinTech revolution and areas of financial services that are likely to be disrupted by it. In the next article, "Cryptocurrency: *A New Investment Opportunity?*," David LEE, Li Guo, and Gavin Liu provide the first extensive study of Bitcoin as an investment product. The authors examine its risk-return properties and argue that because of limited data, we should view their results with care, but also explain that cryptocurrency and blockchain have created a new form of financing for start-ups.

In "FinTech is Merging with IoT & AI to Challenge Banks: *How Entrenched Interests Can Prepare*," Paul Schulte and Gavin Liu argue that collapsing prices of sensors, bandwidth, processing, and storage will

allow upstarts to abandon the internal world of static data and create new sciences of risk, data management, credit analysis, insurance pooling, and trading which are based on ubiquitous and dynamic external sensor and smart phone data which are measured in the billions. This is the world of the Internet of Things (IoT), and computers will increasingly make human-like decisions on all forms of risks. The authors suggest that many financial institutions are not prepared.

Jim Liew and Boris Mayster evaluate the applications of machine learning algorithms in “Forecasting ETFs with Machine Learning Algorithms.” They examine whether these algorithms can be used to predict the direction of daily changes in several liquid ETFs. They find that these algorithms work well over the one-month to three-month horizons. Short-horizon predictability, over days, is extremely difficult. The authors conclude that ETF returns can be predicted with machine learning algorithms, and practitioners may be able to improve the results by incorporating prior knowledge of markets and intuition.

In the article titled “Robo-Advisors and Wealth Management,” Kokfai Phoon and Francis Koh argue that the recent rise of robo-advisors (RAs) has threatened the traditional fund and wealth management industry. They report that RAs’ assets under management (AUM) have

risen many-fold by competing on pricing, transparency, services, and better expected returns that are linked to the use of quantitative finance and technology with less subjective human intervention. Their article examines whether RAs have an edge over traditional wealth managers. The authors expect traditional wealth managers to respond to the challenges offered from RAs by providing new and improved customized and integrated services at competitive fees.

The final paper entitled “What Starts the Prairie Fire? *An Analysis of Marketplace Lending in China: The Status and Driving Forces*,” by Shenglin Ben, Dan Luo, and Jiamin Lv begins by reviewing the history of marketplace lending globally, with an emphasis on that of China, and then expounds on the development of the industry in China, its driving forces and future developments. The main findings suggest that marketplace lending has been developing rapidly in China, and has become a barometer and integral part of the development of China’s overall Internet finance industry. However, China’s marketplace lending is still under “regularization,” with evident trends of polarization and sector concentration.

Hossein Kazemi
Editor-in-Chief