

Hacking the Investment Management Business



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“A platform for people who want to know ‘What should I do with my money?’ and don’t have enough assets to have an advisor, seemed like something that should exist.”

Betterment is a leader in the new category of “robo-advisor” firms, which are founded on the idea that web tools and computer models can deliver financial advice and portfolio management more cheaply and effectively than traditional models.

Betterment is designed for self-directed clients with less than \$10 million in assets. Its goals are to give clients a delightful user experience, faster transactions, better net returns, a financial plan and portfolio customized to their goals, and seamless automation.

The average Betterment user is a young professional, aged 36, with \$150,000 in annual income and \$300,000 in savings. But Betterment is marketing to customers of all types. It now has 72,000 customers and is adding 2,000 a week, giving it a larger customer base than all the other robo-advisors combined.

The firm is also targeting advisors based on the idea that it can make any advisory platform more efficient and scalable by letting advisors co-browse investments with their clients. It also cites the advantage of back office efficiency – everything is paperless and in one place.

What’s driving the growth of robo-advisors is the changing landscape. Transaction costs have gone close to zero, and using ETFs, diversification is much cheaper than it used to be. How people invest has to change in response to these contextual shifts.

Going forward, wealth management will evolve even faster than before, becoming:

More aligned with customers

Transparency will be taken for granted. With the growing use of analytics, customers will demand evidence that decisions are aligned with their interests. This is one reason why fee-based advice is continuing to grow at the expense of commission-based models.

More efficient

Automation is one factor, but vertical integration is also valuable, providing advantages in pricing, efficiency, and capability. The most efficient models are those that leverage automated and integrated technology platforms.

More immediate

Investors want frictionless service and instant gratification – in short, a wow experience. It now takes firms like Betterment less than 24 hours to fully set up and fund an account, with all goals defined and all accounts linked. That process is getting even faster, so an investor's checking account can be instantly linked, with access to paperless signups, rollovers, insurance, and trusts. Customers also want mobile apps; 70% of Betterment's log-ins are on mobile devices and bypass the firm's website altogether.

More advised

Advice will become more important, recognizing that not all of it can be automated. Great advice is personalized, holistic, optimized, and takes emotions into account. That includes behavioral optimizations, such as giving advisors and clients a preview of the tax impacts of a transaction; those who saw tax impacts were 62% less likely to complete the transaction.

Betterment's ultimate objective is to give customers a sense of comfort and security, almost like a return to the defined benefit world. That way they can stay on track with their plans and goals, even in a downturn.

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